

Message Text

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INFO OCT-01 ISO-00 EB-11 OMB-01 TRSE-00 FEA-02 SCI-06

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UNCLAS SECTION 1 OF 2 STOCKHOLM 0163

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TAGS: EFIN, ENRG, SW

SUBJECT: SWEDISH BUDGET BILL SUBMITTED TO RIKSDAG

REF: STATE 00295

SUMMARY: PLEADING PRESENT IMPOSSIBILITY OF PREDICTI*G
ECONOMIC CONSEQUENCES OF OIL CRISIS, SOCIAL-DEMOCRATIC
GOVERNMENT PRESENTED PROVISIONAL 1974/5 BUDGET BILL TO
RIKSDQG JANUARY 11 THAT CONTAINED NO PROGRAM FOR TREATING
PROBLEMS CRISIS MAY CAUSE. GENERAL REACTION OF
POLITICAL OPPOSITION AND TRADE AND INDUSTRY GROUPS WAS
CRITICAL OF GOVERNMENT'S FAILURE TO MAKE EFFORT TO ASSESS
SITUATION AND DRAW UP PROG*AM TO STIMULATE ECONOMY. PRESS
HAS SUGGESTED THAT DO-NOTHING CHARACTER OF BUDGET ARISES
FROM SOCIAL DEMOCRATS' POLITICAL UNCERTAINTY ABOUT BEST
STRATEGY TO PURSUE IN RIKSDAG WHERE THEY LACK MAJORITY
SUPPORT, AS MUCH AS FROM ECONOMIC UNCERTAINTY OF OIL
CRISIS. FOR WHATEVER REASON, THE GOVERNMENT MAY HAVE
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BEEN WISE TO WAIT FOR A CLEARER UNDERSTANDING OF THE PROBLEM

BEFORE SETTING UP PROGRAMS TO TREAT IT. END SUMMARY.

1. SWEDISH GOVERNMENT PRESENTED TO RIKSDAG JANUARY 11 CAUTIOUS PROVISIONAL BUDGET BILL FOR 1974/5 CALLIN FOR EXPENDITURES OF SKR 78.1 BILLION (\$16.6 BILLION AT SKR 4.70 EQUALS \$1.00), ABOUT 10 PERCENT OVER LEVEL OF 1973/4. REVENUES WERE ESTIMATED TO AMOUNT TO SKR 71.5 BILLION. BUDGET DID LITTLE MORE THAN PROVIDE FOR ONGOING GOVERNMENT PROGRAMS. BECAUSE OF UNCERTAINTIES INTRODUCED BY OIL CRISIS, GOVERNMENT DID NOT SUBMIT USUAL ECONOMIC FORECASTS OF YEAR ALONG WITH BUDGET AND PRESCRIBED NO TREATMENT OF POTENTIAL PROBLEMS ARISING FROM OIL SHORTAGE. "WE FIND OURSELVES AT MOMENT IN SITUATION OF GENUINE UNCERTAINTY," SVENSKA DAGBLADET QUOTED FINANCE MINISTER GUNNAR STRANG AS SAYING. HE CALLED BUDGET PROPOSAL "A PROVISIONAL ARRANGEMENT WHILE WAITING FOR ECONOMIC PICTURE TO BECOME CLEARER" AND SAID DEVELOPMENTS COULD YET FORCE SUBSTANTIAL CHANGES IN BOTH REVENUES AND EXPENDITURES COLUMNS.

2. BILL INDICATED THAT GOVERNMENT'S NATIONAL INSTITUTE OF ECONOMIC RESEARCH WILL "SHORTLY" PRESENT FORECASTS OF ECONOMIC PERFORMANCE FOR 1974 BASED ON VARYING ASSUMPTIONS. ON BASIS OF THESE PREDICTIONS AND OF ECONOMIC DEVELOPMENTS, GOVERNMENT WILL SUBMIT TO RIKSDAG IN APRIL DELAYED FORECAST FOR 1974 ALONG WITH REVISED BUDGET. HOWEVER, IN PREAMBLE TO BILL, STRANG ACKNOWLEDGED NOW THAT GNP GROWTH RATE WOULD BE DOWN IN 1974 FROM 5.2 PERCENT EARLIER ANTICIPATED AND LATER MENTION*D FIGURE 3 PERCENT AS PROBABLE. NOTING THAT COST OF SWEDISH OIL IMPORTS WOULD RISE BY SKR 4-6 BILLION IN 1974, HE HOPED THAT EXPORTS WOULD CONTINUE STRONG.

3. PREAMBLE ALSO EXHORTED PARTIES NOW NEGOTIATING WAGE AGREEMENT TO REACH FAST SETTLEMENT; PROLONGED NEGOTIATIONS, STRANG SAID, COULD CREATE UNCERTAINTY FOR CONSUMERS AND LOWER DOMESTIC DEMAND STILL FURTHER BEYOND PRESENT UNSATISFACTORY LEVEL. (PRIVATE CONSUMPTION IN 1973 WAS UP 2.3 PERCENT OVER 1972 WHEN IT WAS ONLY 2.5 PERCENT HIGHER THAN PREVIOUS YEAR.)
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4. FEW NOTEWORTHY INCREASES IN APPROPRIATIONS WERE REQUESTED. FOR MINISTRY OF HEALTH AND SOCIAL AFFAIRS, GOVERNMENT ASKED SKR. 23.4 BILLION, UP SKR 4.2 BILLION OVER 1973/4 MAINLY TO PAY FOR LIBERALIZING HEALTH AND DENTAL CARE INSURANCE; FOR MINISTRY OF DEFENSE, SKR 8.4 BILLION, UP SKR 825 MILLION FROM 1973/4; FOR MINISTRY OF INDUSTRY, SKR 2 BILLION, UP SKR 215 MILLION OVER LAST YEAR

CHIEFLY TO EXPAND HYDROELECTRIC FACILITIES AND ENERGY RESEARCH; AND FOR MINISTRY OF COMMERCE, SKR 287 MILLION, UP SKR 85 MILLION OVER LAST YEAR MOSTLY TO IMPROVE STORAGE FACILITIES FOR OIL AND OTHER FUELS. GOVERNMENT ASKED SKR 2.1 BILLION FOR FOREIGN AID, UP 35 PERCENT ABOVE 1973/4, BUT REQUEST IS STILL NOT HIGH ENOUGH FOR SWEDEN TO REACH AID GOAL OF ONE PERCENT OF GNP.

5. PRESS HIGH-LIGHTED THREE FORTHCOMING BILLS MENTIONED IN BUDGET BILL. FIRST WOULD SET ASIDE SKR 2 BILLION TO FINANCE GOVERNMENT PURCHASES OF CRUDE OIL AND PETROLEUM PRODUCTS. SECOND WOULD GENERALIZE REDUCTION OF PENSIONABLE AGE FROM 67 TO 65, EFFECTIVE PROBABLY IN 1976. (MONEY FOR THIS PURPOSE WOULD COME OUT OF PENSION FUND RATHER THAN NATIONAL BUDGET.) THIRD WOULD PROVIDE FOR CONSTRUCTION OF STEEL WORKS AT LULEA IN NORTHERN SWEDEN AT COST OF SKR 9 BILLION. PROJECT, TO BE BUILT IN THREE EQUAL STAGES, WOULD PROVIDE 6000 NEW JOBS AND INCREASE DOMESTIC PROCESSING OF SWEDISH ORE.

6. OPPOSITION CHARGES SOCIAL DEMOCRATS WITH PASSIVITY. REACTION WAS CRITICAL OF GOVERNMENT FOR FAILING TO PROPOSE STIMULATIVE PLAN TO COUNTER EXPECTED DEPRESSING EFFECTS OF OIL CRISIS. MODERATE COALITION PARTY LEADER GOSTA BOHMAN SOUNDED THEME WHEN HE SAID THAT "EVEN IF ECONOMIC SITUATION AND DEVELOPMENT TRENDS ARE UNCERTAIN AT PRESENT AND DIFFICULT TO FORESEE, IT IS GOVERNMENT'S RESPONSIBILITY TO PRESENT ITS ASSESSMENTS AND LINES OF ACTION." ARGUING THAT WE ALREADY KNOW THAT INVESTMENT WILL BE UNSATISFACTORY, DOMESTIC DEMAND LOW, EMPLOYMENT SITUATION WORSENING, AND PRICES HIGHER, BOHMAN URGED TAX-RELIEF MEASURES AS MEANS OF STIMULATING ECONOMY. LIBERAL PARTY LEADER GUNNAR HELEN ALSO COMPLAINED THAT GOVERNMENT HAD NOT UNCLASSIFIED

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MADE SLIGHTEST ATTEMPT TO ASSESS HOW TO APPROACH NEXT SIX-MONTH PERIOD, DECLARING IT ABSOLUTELY NECESSARY TO INITIATE PROJECTS THAT CAN STIMULATE FIRMS TO REDIRECT THEIR PRODUCTION TO SAVE ENERGY AND TO BUILD UP THEIR INVENTORIES. THORBJORN FALLDIN, CENTER PARTY LEADER, THOUGHT OIL CRISIS "MUST NOT BE GIVEN AS REASON FOR COMPLETE PASSIVITY" WITH REGARD TO SUCH AN IMPORTANT MATTER AS EMPLOYMENT POLICY. WHILE UNDERSTANDING USELESSNESS OF ATTEMPTING DETAILED ECONOMIC ASSESSMENT AT PRESENT MOMENT, FALLDIN FOUND IT SURPRISING THAT STRANG HAD MADE NO ANALYSIS OF IMMEDIATE SITUATION REGARDING EMPLOYMENT, PRODUCTION AND PRICES. GOVERNMENT SHOULD NOT WAIT TO INTRODUCE MEASURES TO STIMULATE EMPLOYMENT AND PRODUCTION, HE SAID. COMMUNIST PARTY LEADER C-H HERMANSSON DELCARED BUDGET A "MANUAL OF CAPITALIST ANARCHY AND LACK OF PLANNING."

7. TRADE UNION, MANAGEMENT, AND BANKING ASSOCIATIONS
UNENTHUSIASTIC. SOMEWHAT MILD CRITICISM OR NONE AT ALL
WAS HEARD IN OTHER QUARTERS. GUNNAR NILSSON, PRESIDENT
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OF TRADE UNION CONFEDERATION (LO), THOUGHT STRANG OVER-EMPHASIZED POSSIBILITY OF EXCESSIVE DEMAND, CONSIDERED FALLING DEMAND AND UNEMPLOYMENT A GREATER RISK, AND URGED VIGOROUS JOB SUPPORT. (NILSSON, AMONG OTHERS, URGED STIMULATIVE PACKAGE WELL BEFORE OIL CRISIS ERUPTED.) AXEL IVEROTH, EXECUTIVE DIRECTOR OF INDUSTRY FEDERATION, FOUND BUDGET A "WATERED-DOWN, NONCOMMITTAL DOCUMENT." OIL CRISIS "DOES NOT MAKE SITUATION SO DIFFICULT TO ASSESS THAT CERTAIN DECISIONS CANNOT BE MADE," HE SAID; "IT IS TIME TO STIMULATE DOMESTIC DEMAND...EVEN IF CONSEQUENCES WILL BE A RATHER LARGE DEFICIT IN BALANCE OF PAYMENTS." CURT-STEFFAN GIESECKE, XECUTIVE DIRECTOR OF EMPLOYERS' FEDERATION, HAD NO OBJECTION TO BUDGET OR TO STRANG'S EXHORTATION TO REACH A RAPID AGREEMENT IN WAGE BARGAINING. HE SEIZED STRANG'S STATEMENT THAT ECONOMY AS A WHOLE CANNOT COMPENSATE ITSELF FOR INCREASE IN OIL PRICES AND CONCLUDED, UNDOUBTEDLY WITH AN EYE COCKED AT LABOR

NEGOTIATORS, "THIS MUST MEAN THAT WE WILL BE RELATIVELY POORER." JONAS NORDENSON, CHAIRMAN OF SWEDISH BANKS' ASSOCIATION, OBSERVED THAT BY ALLOWING QUESTION OF COURSE OF ACTION TO REMAIN OPEN, GOVERNMENT WAS INCREASING UNCERTAINTY AND CREATING A TENDENCY TO AMPLIFY ALREADY DEPRESSIVE EFFECTS OF PRESENT SITUATION.

8. PRESS REACTION. NEWSPAPER EDITORIALS WERE SIMILARLY CRITICAL. EVEN SOCIAL-DEMOCRATIC TABLOID AFTONBLADET, JANUARY 11, ALLOWED THAT "ALTERNATIVES SHOULD HAVE BEEN PRESENTED"; GOVERNMENT, IT SAID, COULD HAVE STIMULATED ECONOMY ON CONSUMPTION SIDE, REDUCED VAT. AGREEING, LIBERAL EXPRESSEN, JANUARY 11, DECLAIMED, "THERE IS NO LONGER A GOVERNMENT IN SWEDEN. ALL THAT IS LEFT IS A RATIONING COMMISSION." LIBERAL DAILY DAGENS NYHETER, JANUARY 12, SEARCHED FOR MOTIVES: "THE OIL CRISIS IS DOUBTLESS NOT THE ONLY REASON WHY THE GOVERNMENT IS LYING SO LOW IN THIS YEAR'S BUDGET. POLITICALLY, IT STILL DOESN'T REALLY KNOW ON WHICH LEG IT IS GOING TO STAND IN THE SPRING. IT HAS BEEN UNWILLING TO ROUSE THE OPPOSITION WITH PROPOSALS OF A CLEARLY POLITICAL NATURE... AND YET IT WOULD BE A MISTAKE TO THINK THAT THIS CAREFUL BUDGET MEANS THAT THE GOVERNMENT HAS GIVEN UP THE IDEA OF A NEW ELECTION..."?

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9. COMMENT: PALME GOVERNMENT, AS STRANG REMARKED TO PRESS, IS KEEPING ITS OPTIONS OPEN AS LONG AS POSSIBLE. BLAND BUDGET PROPOSALS THEMSELVES GIVE OPPOSITION LITTLE AREA TO FIRE AT, BUT ABSENCE OF POSITIVE PROGRAM TO MEET ENERGY CRISIS OFFERS OBVIOUS OPPORTUNITY TO SHOUT "INCOMPETENCE". HOWEVER, GOVERNMENT MAY HAVE TAKEN ECONOMICALLY WISEST COURSE; LACK OF CLEAR DEFINITION OF DEPTH OR DURATION OF ENERGY PROBLEM EVEN IN SHORT TERM ARGUES AGAINST PRECIPITATE ACTIONS. GOVERNMENT ALREADY IS SLIGHTLY DEFENSIVE ABOUT HAVING IMPOSED TOUGHEST ENERGY-SAVING PROGRAM IN WORLD. ALL INFORMATION AVAILABLE TO EMBASSY INDICATES THAT CONTINUATION OF CURRENT RATE OF SWEDISH OIL IMPORTS, ASSUMING MODERATE SAVING, IS SUFFICIENT TO PREVENT SERIOUS DIRECT HARM TO INDUSTRY, AS OPPOSED TO POSSIBLE ADVERSE IMPACT OF REDUCED EXPORT DEMAND, AT LEAST THIS YEAR. FOR POLITICAL REASONS, HOWEVER, GOVERNMENT MAY HAVE TO LOOK BUSIER IN ITS TREATMENT OF ENERGY PROBLEM BY TIME IT PRESENTS REVISED BUDGET IN APRIL. TO JUDGE BY REACTION TO PROVISIONAL BUDGET BILL, SOCIAL DEMOCRATS CAN COUNT ON WIDESPREAD SUPPORT FOR MILDLY STIMULATIVE PROGRAM IF CAREFUL CONSIDERATION FINDS IT NEEDED.

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